



Agenda Date: 9/22/04
Agenda Item: 4A

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF)	<u>TELECOMMUNICATIONS</u>
Z-TEL COMMUNICATIONS, INC. FOR)	
AUTHORITY TO PROVIDE ITS SECURITY IN)	
CONNECTION WITH NEW FINANCING FOR)	ORDER OF APPROVAL
ITS PARENT)	
)	DOCKET NO. TF04080761

(SERVICE LIST ATTACHED)

BY THE BOARD:

Z-Tel Communications, Inc., (Z-Tel or Petitioner), a public utility subject to the jurisdiction of the New Jersey Board of Public Utilities (Board), filed a petition on August 11, 2004, pursuant to N.J.S.A. 48:3-7 and 48:3-9, requesting approval to participate in the financing transaction of up to \$50 million through establishment of a Secured Credit Facility with the 1818 Fund III L.P. formed by Brown Brothers Harriman & Company (Lenders). It is anticipated that the Credit Facility will be secured by the grant of a security interest in the assets of Petitioner, and its parent corporation, Z-Tel Technologies, Inc., as well as various other subsidiaries of Z-Tel Technologies, Inc. (collectively the Company or Borrowers).

Petitioner provides advanced, integrated telecommunications services targeted to residential and small business customers, including local and long distance telephone services in combination with enhanced communication features.

The terms of the Credit Facility are expected to be substantially as follows:

Lenders:	The 1818 Fund III LP formed by Brown Brothers Harriman & Company
Amount:	Up to \$50 million
Maturity:	One to seven years depending on the amount, interest rate and market conditions.
Interest:	Prime or LIBOR plus an acceptable margin. The rate is estimated currently to be approximately 10%.

Security: Z-Tel is likely to be required to provide its guaranty as security for the loans and may pledge its assets to the extent permitted by existing indebtedness.

Use of
Proceeds: It is intended that the net proceeds of the financing will be used for general corporate purposes and capital expenditures relating substantially to the establishment of Z-Tel's planned network.

The financing arrangement will provide Z-Tel with the financial resources needed to continue to produce new products and services and respond to the highly competitive telecommunications environment.

Petitioner is a non-dominant telecommunications carrier and is not subject to rate of return regulation. Therefore its capital structure should not be a matter of concern to the Board. In addition, because of the highly competitive environment in which Petitioner operates, the rates charged to its customers are subject to market discipline and the services it offers are generally available from other carriers.

The staff's review indicates that the Credit Agreement is in accordance with law and that the use of the proceeds associated therewith is appropriate. Moreover, while there is no guarantee in this regard, especially given the competitive environment in which Petitioner operates, the Board is satisfied that the transactions will not have an adverse impact on Petitioner's operations in New Jersey.

The Ratepayer Advocate recommends approval of the petition.

After review, the Board FINDS that the transaction to be made is in accordance with the law and is in the public interest. Therefore the Board approves the purposes thereof. The Board HEREBY APPROVES Petitioner's participation in the financing arrangements described herein.

This Order is issued subject to the following provisions:

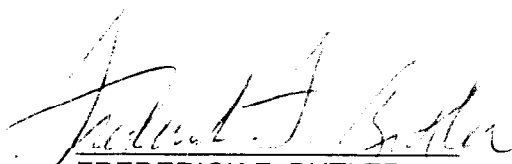
1. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
2. Petitioner shall semiannually file statements for the amount, use of the amounts and use of the credit facilities pursuant to N.J.A.C. 14:1-5.9 (b).
3. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under such agreement does not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.
4. Petitioner shall provide the Board within thirty (30) days copy of the executed Credit Agreement.

5. This Order shall not affect, or in any way limit the exercise of the authority of this Board, or of the State, in any future petitions or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation or any other matters affecting the Petitioner.

DATED: 9/23/04


BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CAROL J. MURPHY
COMMISSIONER

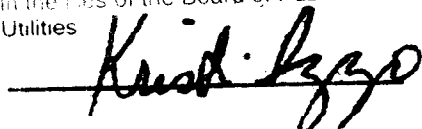

CONNIE O. HUGHES
COMMISSIONER


JACK ALTER
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

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in the files of the Board of Public
Utilities



Service List
I/M/O Petition of Z-Tel Communications, Inc.
for Authority to provide its Security in Connection
with New Financing

Docket No. TF04080761

BPU

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